

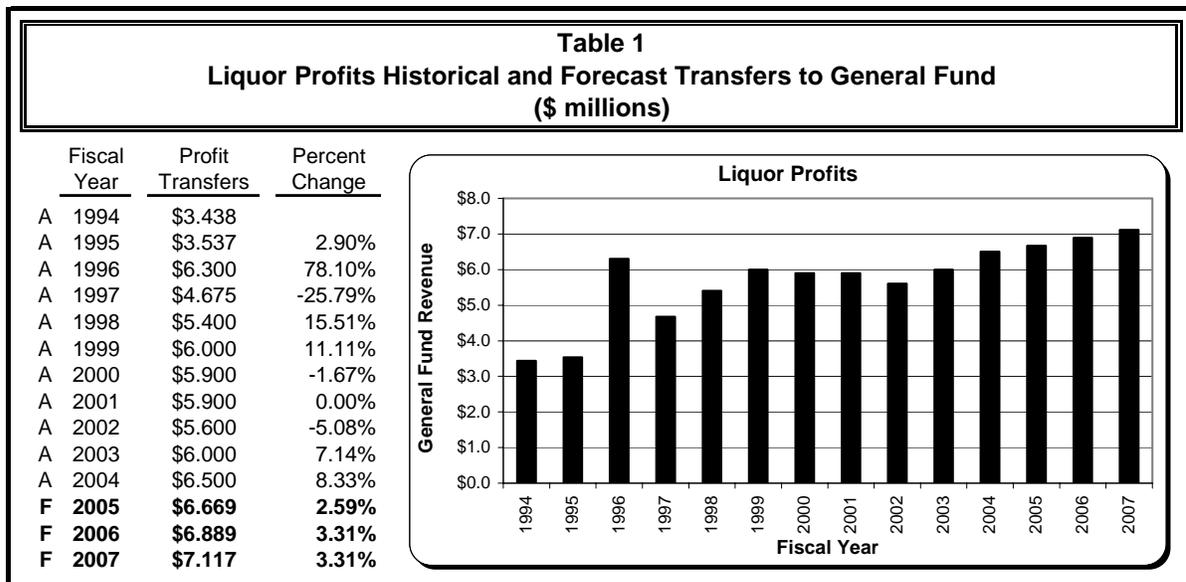
LIQUOR PROFITS

Revenue Description

The Department of Revenue administers liquor laws relating to alcoholic beverage control, sale and distribution, and the licensing of alcoholic beverage manufacturers, wholesalers and retailers (Title 16, chapters 1 through 6, MCA). Agency franchisees purchase liquor products from the state liquor warehouse. A 40% markup on the state's base costs covers the operating costs of the state liquor system and provides a net profit. Liquor profits are transferred to the general fund at fiscal year end.

Historical and Projected Revenue

Table 1 shows historical and projected collections from liquor profits for FY 1994 through FY 2007.



Liquor profit transfers to the general fund have fluctuated over the years, spiking in FY 1996, the year in which the state privatized liquor-retailing operations. The forecast projects liquor profit transfers to the general fund to increase 2.59% in FY 2005, increase 3.31% in FY 2006, and increase 3.31% in FY 2007.

Forecast Methodology and Projection Calculation

The liquor profit transfer to the general fund is based on the net income from liquor operations for the fiscal year. Net income from liquor operations is calculated as gross liquor sales minus less the cost of goods sold, liquor taxes (liquor excise tax

and liquor license tax), commissions, discounts, and operating expenses. The calculations for gross liquor sales, cost of goods sold, and liquor taxes are in the Liquor Excise and License Tax General Fund Revenue Estimate. These will not be duplicated here. This analysis will show the calculation of commissions, discounts, operating expenses, and profits.

Sales Commissions, Discounts, and Operating Expenses

Sales commissions are paid to liquor store owners by the State of Montana. The commission rate was negotiated with liquor store owners when privatization occurred, and varies among store owners. In compliance with the law, the commission rates are negotiated between the Department of Revenue and the store owners every three years. SB 348 (2001 session) increased the commission rates over a three-year period based on the annual sales volume by agency liquor stores. The last SB 348 rate increase went into effect in FY 2005, as did the new negotiated commission rates. The commission rate averaged 9.58% in FY 2004. For FY 2005, FY 2006, and FY 2007 the commission rate is 10.11%. Increasing the discount rate reduces the liquor profits transfer to the general fund.

Discounts are offered to liquor store owners on all purchases. The effective discount rate of 1.94% has remained constant over the last few years, and is assumed to remain constant barring any change in statute.

The Department of Revenue estimates operating expenses to be 1.82% of gross sales. This is based on the FY 2002 through FY 2004 average, and includes the amounts that the liquor enterprise program will be billed for services provided by the Department of Revenue.

Table 2 shows the calculation for commissions, discounts, and operating expenses.

Table 2			
Projected Commissions and Discounts and Operating Expenses			
FY 2005 through FY 2007			
<u>Description</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
Gross Sales	\$ 73,169,732	\$ 75,589,379	\$ 78,089,041
Multiplied by: Commission Rate (% of Gross Sales)	10.11%	10.11%	10.11%
Projected Commissions	\$ 7,397,460	\$ 7,642,086	\$ 7,894,802
Gross Sales	\$ 73,169,732	\$ 75,589,379	\$ 78,089,041
Multiplied by: Discount Rate (% of Gross Sales)	1.94%	1.94%	1.94%
Projected Discounts	\$ 1,419,493	\$ 1,466,434	\$ 1,514,927
Gross Sales	\$ 73,169,732	\$ 75,589,379	\$ 78,089,041
Multiplied by: Operating Expenses (% of Gross Sales)	1.82%	1.82%	1.82%
Projected Operating Expenses	\$ 1,331,689	\$ 1,375,727	\$ 1,421,221

Liquor Profit Transfers to the General Fund

Table 3 shows liquor profit calculations for FY 2005 through FY 2007. Liquor profit transfers to the general fund are forecast to be \$6.669 million in FY 2005, \$6.889 million in FY 2006, and \$7.117 million in FY 2007.

Table 3			
Liquor Profits Calculation Summary			
FY 2005 through FY 2007			
<u>Description</u>	<u>FY 2005</u> <u>Estimate</u>	<u>FY 2006</u> <u>Estimate</u>	<u>FY 2007</u> <u>Estimate</u>
Gross Liquor Sales	\$73,169,732	\$75,589,379	\$78,089,041
Less:			
Cost of Goods Sold	41,253,978	42,618,204	44,027,544
Liquor Taxes	15,098,516	15,597,808	16,113,612
Commissions	7,397,460	7,642,086	7,894,802
Discounts	1,419,493	1,466,434	1,514,927
Operating Expenses	1,331,689	1,375,727	1,421,221
Profit Transfers	\$ 6,668,596	\$ 6,889,120	\$ 7,116,936